Written Statement of

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Good morning Chairman Whitfield, Ranking Member Rush, and members of the committee.

Thank you for the opportunity to present API's views on the Renewable Fuels Standard (RFS). API represents all sectors of America's oil and natural gas industry, which provides most of our economy's energy, supports 9.2 million American jobs and 7.7% of the U.S. economy, and delivers more than $86 million a day in revenue to the federal government.

API's more than 500 member companies include many of our nation's refiners, who are critical to US national and economic security. US refiners support over half a million jobs and provide the vital products that Americans rely on daily. It is these refiners who shoulder the principal responsibility for meeting the RFS requirements.

Given current and projected worldwide energy demand, America needs all sources of commercially viable energy, as well as a greater commitment to energy efficiency and energy conservation. Renewables are a part of this equation. API supports the continued, appropriate use of ethanol, biodiesel, and other biofuels as blending components in transportation fuels.

Over the past seven years, the two RFS laws (passed in 2005 and 2007) have substantially expanded the role of renewables in America. Today, almost 15 billion gallons of ethanol are blended annually in gasoline. Almost all gasoline sold is now a 10% ethanol blend by volume. This amount of ethanol requires no modifications to vehicles, no major changes to service station pumps and storage tanks, and has a long history of successful use by consumers. The RFS requires that 36 billion gallons of renewable fuels be sold by 2022.

EPA has allowed the RFS law's volume requirements to drive decisions that are inappropriate and unwise. The law has become increasingly unrealistic, unworkable, and a threat to consumers. It needs an overhaul, especially with respect to the volume requirements. The problems with the current RFS are detailed below.

The Impending E10 "Blend Wall"

Based on what we know today, a 10% ethanol blend is the maximum safe level. Automobile manufacturers advise car owners not to exceed the 10% blend amount. They say damage to an engine caused by higher concentrations may not be covered by warranties.

Unfortunately, as the RFS law's volume requirements continue to increase, the ethanol volume required for blending into gasoline will soon exceed 10%, a

situation known as the E10 “blend wall.” Depending on US gasoline demand and individual company operations, refiners may face the E10 blend wall as early as 2013. The recent decline in US gasoline demand due to the recession, as well as the impacts associated with tighter Corporate Average Fuel Economy standards, has accelerated this timing.

Refiners will be faced with difficult decisions when the blend wall is reached. They will have only two options for blending higher ethanol content into gasoline: E15 and flexfuel. The problems with E15 are detailed below. Flexfuel (more popularly known as “E85,” a motor fuel blend containing 51 to 83% ethanol by volume) can only be used in “flexible fuel vehicles” (FFVs), which comprise only about 5% of the US vehicle fleet today. To date, E85 has faced low consumer acceptance as FFV owners use E85 less than 1% of the time. The fuel economy of an FFV operated on E85 is approximately 25-30% lower than when fueled with gasoline due to ethanol’s lower energy content. Also, less than 2% of retail gasoline stations offer E85, which has high installation costs.

Ultimately, the RFS if fully implemented will require more than doubling the volume of ethanol in the gasoline pool. As a result, the E10 blend that you consume today could become at least an E20 blend in the future.

EPA's E15 Partial Waiver is Premature and Risks Consumer Safety

In 2010 and 2011, EPA approved the use of E15 for a portion of the motor vehicle fleet in order to accommodate the RFS law's volume increases. We believe these actions were premature and unlawful, and present an unacceptable risk to billions of dollars in consumer investments in vehicles. They also put at risk billions of dollars of gasoline station pump equipment in scores of thousands of retail outlets across America, most owned by small independent businesses.

E15 is a different transportation fuel, well outside the range for which the vast majority of U.S. vehicles and engines have been designed and warranted. E15 is also outside the range for which service station pumping equipment has been listed and proven to be safe and compatible and conflicts with existing worker and public safety laws outlined in OSHA and Fire Codes.

EPA should not have proceeded with E15, especially before a thorough evaluation was conducted to assess the full range of short- and long-term impacts of increasing the amount of ethanol in gasoline on the environment, on engine and vehicle performance, and on consumer safety.

Research on higher blends was already underway when EPA approved E15 in 2010 and 2011. In response to the passage of EISA in 2007, the oil and natural gas industry, the auto industry, and other stakeholders, including EPA and DOE,

recognized in early 2008 that substantial research was needed in order to assess the impact of higher ethanol blends including the compatibility of ethanol blends above 10% (E10+) with the existing fleet of vehicles and small engines. Through the Coordinating Research Council (CRC), the oil and auto industries developed and funded a comprehensive multi-year testing program prior to the biofuels industry's E15 waiver application. API worked closely with the auto and off-road engine industries and with EPA and DOE to share and coordinate research plans. Yet, EPA approved the E15 waiver request before this research effort was finished and the results thoroughly evaluated.

The potential for harm from that decision is substantial, as suggested by the results of various research studies, including testing performed by DOE's National Renewal Energy Laboratory and by the CRC, have been completed to date. The DOE research shows an estimated half of existing service station pumping equipment may not be compatible with a 15% ethanol blend. The CRC research shows that E15 could also damage the engines of millions of cars and light trucks. E20 may have similar, if not worse, compatibility issues with engines and service station equipment.

EPA Mandates Cellulosic Fuels That Don't Exist

The EISA 2007 law requires increasing use of cellulosic ethanol – an advanced form of ethanol that theoretically can be made from a broader range of feedstocks. The problem is, you can't buy the fuel yet because no one is making it commercially. We now know that no cellulosic biofuels were produced in 2010, 2011, or in the first half of 2012. Yet EPA continues to assert that aggressive mandates that aren't based on actual production will somehow stimulate production of these fuels.

While EPA could waive the provision, it has decided to require refiners to purchase credits for a non-existent fuel, which will drive up costs and potentially hurt consumers.

At some point technological advances will lead to the commercial production of such fuels. In fact, the refining industry is investing billions attempting to develop such fuels from feedstocks like algae and switch grass. But as the National Research Council concluded last fall, "Currently no commercially viable biorefineries exist for converting cellulosic biomass to fuel."

EPA's Approach to RIN Credits Needs to be Overhauled

Another problem with implementation of the RFS is how EPA is handling fraudulent renewable fuel credits that some refiners have purchased under a

program EPA created. EPA initially told refiners the bad credits were the companies' problem and they'd have to purchase more RINs, adding more costs to making gasoline. In effect, refiners that were the victims of fraud were being penalized for purchasing invalid credits in good faith. We are now having discussions with the Agency to address this problem, and we're strongly urging them to resolve the issue this year.

Conclusion

The RFS law needs to be altered to fix what isn't working and take into account the ability of the vehicle fleet and fueling infrastructure to safely use renewable blends. Mandates must have periodic technology/feasibility reviews to allow for appropriate adjustments.

Biofuels are an important part of the nation's energy mix. But current law and how it is implemented have become increasingly problematic. This could eventually hurt consumers and erode support for the RFS program.